

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6723

BILL NUMBER: SB 382

DATE PREPARED: Jan 13, 2001

BILL AMENDED:

SUBJECT: Elimination of school General Fund property tax.

FISCAL ANALYST: Bob Sigalow

PHONE NUMBER: 232-9859

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill prohibits a school corporation from imposing a General Fund property tax levy beginning in 2006. It provides a property tax replacement credit for school General Fund property taxes in 2002 through 2005 beginning at 20% and increasing by 20% each year. The bill terminates the authority of: (1) Lake County to impose a property tax for a county Supplemental School Distribution Fund; (2) Dearborn County to impose a property tax for a county School Distribution Fund; and (3) a Lake County school corporation to impose a property tax for a Supplemental School Operating Reserve Fund. The bill also allows a school corporation to continue to impose a property tax levy for certain public libraries, nursery schools, historical societies, art associations, cultural institutions, public playgrounds, and the Children's Museum in Marion County.

This bill provides a method for calculating the amount of Financial Institution Taxes and Excise Taxes to be distributed to school corporations after the elimination of the school General Fund property tax. It recodifies provisions concerning emergency loans to school corporations and the duty of a school corporation to raise sufficient property tax revenues to repay certain outstanding debt. The bill also provides that the maximum amount that may be loaned to the General Fund is based on the amount of money, rather than the property tax revenue, in the fund.

Effective Date: Upon passage; July 1, 2001; March 1, 2004; January 1, 2006.

Explanation of State Expenditures: The bill provides a credit of 20% in CY 2002, 40% in CY 2003, 60% in CY 2004, and 80% in CY 2005 on school General Fund property taxes levies. Gross school General Fund property tax levies are estimated to be \$1.76 B in CY 2002, \$1.84 B in CY 2003, \$1.92 B in CY 2004, and \$2.00 B in CY 2005. Under the bill, the reduction in gross school General Fund property tax levies are estimated to be \$352.0 M for CY 2002, \$734.9 M in CY 2003, \$1.15 B in CY 2004, and \$1.60 B in CY 2005. Since the state already pays property tax replacement credits (PTRC) and homestead credits against the gross levy, the state's net additional liability would be less than the gross credit amount. The estimated net state

cost is presented in the table below.

Beginning in CY 2006, the bill would prohibit schools from levying a property tax for the school General Fund. However, the bill would also guarantee that each school's General Fund would receive at least as much revenue as it did in the previous year. Absent any other revenue source, the state would be liable for the estimated school General Fund net levy amount plus any other revenues that are tied to the levy and would no longer be received. School General Fund net levies are estimated at \$1,527.6 M, Local Homestead Credits paid from COIT revenue are estimated at \$43.4 M and Local Property Tax Replacement Credits paid from CAGIT revenue are estimated at \$28.7 M in CY 2005 for a total guarantee of \$1,599.7 M. This amount would be a potential liability to the state for CY 2006 and beyond. The state's guarantee is reflected in the summary table below.

Estimated State Cost to Replace School General Fund Property Tax (In Millions)					
Property Tax Year	% Credit	Estimated Net Credit	Est. Net Guarantee	State Fiscal Year	State FY Cost
CY 2002	20%	\$268.8		FY 2002	\$134.4
CY 2003	40%	\$560.5		FY 2003	\$414.6
CY 2004	60%	\$877.8		FY 2004	\$719.1
CY 2005	80%	\$1,222.1		FY 2005	\$1,049.9
CY 2006			\$1,599.7	FY 2006	\$1,410.9
CY 2007			\$1,599.7	FY 2007	\$1,599.7

The credit for CY 2002 - CY 2005 would be paid from the state General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill phases out the property tax levy for school General Funds beginning in CY 2002 and eliminates it in CY 2006. Statewide, school net General Fund gross levies are estimated at \$1,343 M in CY 2002, \$1,401 M in CY 2003, \$1,463 M in CY 2004, \$1,528 M in CY 2005, and \$1,593 M in CY 2006. The net levy reduction is estimated at \$268.8 M for CY 2002, \$560.5 M in CY 2003 and \$877.8 M in CY 2004, \$1,222.1 M in CY 2005 and \$1,599.7 M in CY 2006. The net levy reductions for CY 2002 - CY 2005 would be replaced by a state-funded credit. The state would then guarantee funding for CY 2006 and beyond at a level equal to the previous year's funding.

Although this bill eliminates school General Fund levies for the general operation and maintenance of the school corporation, it would allow school corporations to continue to levy a school General Fund property tax for certain public libraries, nursery schools, historical societies, art associations, public playgrounds, and the Indianapolis Children's Museum.

Beginning in CY 2006, school corporations that successfully appeal to the School Property Tax Control Board could receive emergency relief from the state in the form of grants, loans, authority to borrow money, advances, permission to use unobligated balances in a construction fund, or any combination of these items.

Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded homestead credit of up to an additional 8%. It is estimated that in CY 2006, school corporations will receive \$43.4 M in COIT homestead revenue to replace school General Fund levies. COIT revenue that is not used to supplement local homestead credit is distributed to counties, cities, and towns. Therefore, the \$43.4 M that school General Funds will receive in CY 2006 under current law would instead be distributed to counties, cities, and towns as a result of this bill.

Under current law, counties that impose the County Adjusted Gross Income Tax (CAGIT) allocate local property tax replacement credits to civil taxing units and to school corporations. It is estimated that in CY 2006, school corporations will receive \$30.2 M in CAGIT revenue to replace school General Fund levies. CAGIT revenue that is not used to replace school General Fund levies is distributed to counties, cities, towns, and to other school funds. Therefore, the \$30.2 M that school General Funds will receive in CY 2006 under current law would instead be distributed to counties, cities, towns, and to other school funds as a result of this bill.

The bill also eliminates the County School Distribution Fund and the Supplemental School Operating Reserve Fund in Lake County and the County School Distribution Fund in Dearborn County. The levy for the Lake County School Distribution Fund amounted to \$3,523,000 in CY 2000 and the Dearborn County levy was \$564,000 (school corporations in these counties would lose associated revenue under this provision).

Under this proposal, a tax increment financing (TIF) area would have the ability to place a special assessment on property in the allocation area if the elimination of the school General Fund property tax rate affects the TIF area's ability to repay obligations. The amount of the assessment would be limited to the difference between the total amount due on obligations entered into before April 2, 2004 and the total revenues available to pay them.

This bill provides an alternate method for calculating the amount of Financial Institution Taxes and Auto Excise Taxes to be distributed to school corporations after the elimination of the school General Fund property tax. The new calculation will ensure that the school General Funds will continue to Receive Financial Institution Taxes and Auto Excise Taxes in the same amounts as they do under current law.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: School Corporations.

Information Sources: Local Government Database.